



Reversing the Property Tax Shifts

SUMMARY

In 1992-93 and 1993-94, the state shifted about \$4 billion in property taxes from certain local agencies to schools. These actions allowed the state to reduce its General Fund spending on schools. California's overall level of school spending was not affected by this shift of tax dollars.

While the property tax shifts played an important role in resolving the state's budget imbalances of the early 1990s, the property tax shifts have:

- ❖ *Diminished local capacity to respond to constituent needs and priorities.*
- ❖ *Encouraged counties to cut back on their property tax collection efforts.*
- ❖ *Decreased city and county incentives to promote new land developments.*

This policy brief provides an overview of the property tax shifts of 1992-93 and 1993-94—and examines four alternatives for reversing them. These proposals provide varying levels of relief to local agencies, and they also have different impacts on school spending and state taxation.

Our review indicates that the concept of allocating additional property taxes to local agencies has merit. Accordingly, we recommend that the Legislature consider mechanisms for reversing all or a portion of the tax shifts as it evaluates the state's budget priorities and proposals for changing state taxation.

Should the Legislature wish to restore property taxes to local agencies, we recommend that the Legislature provide this fiscal relief in a manner consistent with its objectives for local government, the economy, and the state-local relationship.